

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

Certified as a
Signed set of the 2005
Report and Financial
Statements of
The Watford Association
Football Club Limited

Company registration number: 104194

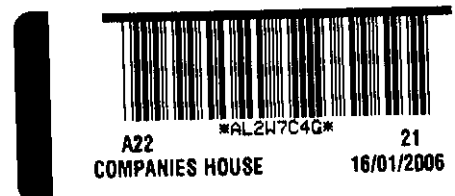


P.J. Wastall
Secretary

STEADY GROWTH
SERIOUS PROGRESS

96TH ANNUAL REPORT & FINANCIAL STATEMENTS
THE WATFORD ASSOCIATION
FOOTBALL CLUB LIMITED

Chantrey Vellacott DFK LLP



THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

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THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

DIRECTORS' REPORT

The directors present their report on the affairs of the company, together with the financial statements and auditors' report for the year ended 30 June 2005.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company continues to be that of a professional football league club.

The company reported a profit before taxation for the year of £695,747 (2004 - profit £1,639,357) after write back of parent company loan amounting to £3,769,273 (2004 - £6,002,470).

Whilst the directors are disappointed with the results for the year, they recognise that these are broadly in line with expectation. Despite difficult market conditions, the directors expect an improvement to the trading results in the following years. The Vicarage Road Stadium was repurchased in early September 2004 and is the most vital element for preserving the Club's future.

The directors are unable to recommend the payment of a dividend. Accordingly, the profit for the year has been combined with the accumulated deficit brought forward as shown in note 16 to the financial statements.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of its financial year and of the profit or loss of the company for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' AND THEIR INTERESTS

The directors at 30 June 2005 together with their beneficial interests in the shares of the company and parent company, Watford Leisure PLC, at 30 June 2005 were as follows:

	Parent company		Company	
	Ordinary shares of 10p each		Ordinary shares of £1 each	
	2005	2004	2005	2004
G M Simpson	2,868,796	2,868,796	-	-
D R Meller	397,872	331,206	-	-
D R J Lester	489,013	489,013	-	-
C D Lissack	401,329	263,829	200	200
C J Norton	383,531	183,531	-	-
H B Oundjian	8,350	8,350	-	-
G Russo	3,759,398	1,879,699	-	-
V Russo	3,759,398	1,879,699	-	-
A S Wilson	16,666	16,666	-	-

None of the directors has any interest in the share capital of any other group company.

G Russo and V Russo are jointly beneficially interested in a single shareholding of 3,759,398 Ordinary 10p shares of the parent company registered in the name of Valley Grown Salads which business is jointly controlled by them.

T M Shaw resigned as a director on 3 May 2005.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are given in note 22 to the financial statements.

AUDITORS

A resolution concerning the reappointment of Chantrey Vellacott DFK LLP as auditors of the company will be proposed at the forthcoming Annual General Meeting.

SIGNED ON BEHALF OF THE BOARD

P J WASTALL
Company Secretary

Approved on behalf of the Board on 22 November 2005



THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

We have audited the financial statements of The Watford Association Football Club Limited for the year ended 30 June 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes set out on pages 9 – 20. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE SHAREHOLDERS OF THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

FUNDAMENTAL UNCERTAINTY

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the financial projections prepared by the directors for the two years to June 2007 and the assumptions on which they are based. The financial statements have been prepared on a going concern basis and are dependent on the funds raised via Watford Leisure PLC. The financial statements do not include any adjustments that would result should this not be the case. Details of the circumstances relating to this fundamental uncertainty are described in note 1(a) to the financial statements. Our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

chantrey vellacott DFK LLP

CHANTREY VELLACOTT DFK LLP

Chartered Accountants and Registered Auditors

WATFORD

23 November 2005

Chantrey Vellacott DFK LLP

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Operations excluding player trading £	Player trading (note 8) £	Year ended 30 June 2005 £	Year ended 30 June 2004 £
Turnover	2	7,180,283	-	7,180,283	7,459,550
Cost of sales		<u>8,595,502</u>	<u>383,228</u>	<u>8,978,730</u>	<u>10,237,484</u>
Gross loss		(1,415,219)	(383,228)	(1,798,447)	(2,777,934)
Administrative expenses		<u>2,251,443</u>	-	<u>2,251,443</u>	<u>2,810,539</u>
		(3,666,662)	(383,228)	(4,049,890)	(5,588,473)
Other operating income	3	<u>875,528</u>	-	<u>875,528</u>	<u>570,658</u>
Operating loss		(2,791,134)	(383,228)	(3,174,362)	(5,017,815)
Profit on disposal of players registrations		-	725,345	725,345	861,170
Parent company loan written back	18	3,769,273	-	3,769,273	6,002,470
Interest receivable	4	22,305	-	22,305	6,085
Interest payable and similar charges	4	<u>(646,814)</u>	-	<u>(646,814)</u>	<u>(212,553)</u>
Profit on ordinary activities before taxation	5	<u>353,630</u>	<u>342,117</u>	695,747	1,639,357
Tax on profit on ordinary activities	7			-	-
Profit for the financial year	16			<u>695,747</u>	<u>1,639,357</u>

None of the company's activities was acquired or discontinued during the above two financial years.
The company has no recognised gains or losses other than those included in the results above and
therefore no separate statement of total recognised gains and losses has been presented.
There is no difference between the profits shown above and their historical cost equivalents.

The notes on pages 9 to 20 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

BALANCE SHEET

AT 30 JUNE 2005

	Notes	£	2005 £	2004 £
Fixed assets				
Intangible assets	1 (b) (e) & 8		813,049	1,222,193
Tangible assets	1 (d) & 9		<u>8,018,452</u>	<u>398,887</u>
			8,831,501	<u>1,621,080</u>
Current assets				
Stocks	1 (f) & 10	44,674		98,475
Debtors	11	1,324,257		909,075
Cash at bank and in hand		<u>16,442</u>		<u>596,878</u>
		1,385,373		1,604,428
Creditors: amounts falling due within one year	12	<u>10,121,721</u>		<u>3,396,711</u>
Net current liabilities			<u>(8,736,348)</u>	<u>(1,792,283)</u>
Total assets less current liabilities			95,153	(171,203)
Creditors: amounts falling due after more than one year	13		(8,130,688)	(8,555,049)
Deferred capital grants and contributions	14		<u>(46,393)</u>	<u>(51,423)</u>
			<u>(8,081,928)</u>	<u>(8,777,675)</u>
Capital and reserves				
Called up share capital	15		1,072,722	1,072,722
Profit and loss account - accumulated deficit	16		<u>(9,154,650)</u>	<u>(9,850,397)</u>
Shareholders' funds	17		<u>(8,081,928)</u>	<u>(8,777,675)</u>

Approved and signed on behalf of the Board on 22 November 2005.

G M SIMPSON

Director

G RUSSO

Director

The notes on pages 9 to 20 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	Notes	£	2005 £	£	2004 £
Operating activities					
Net cash outflow from operating activities	18 (a)		(1,691,114)		(4,685,950)
Returns on investments and servicing of finance					
Interest received		22,305		6,085	
Interest paid		<u>(593,289)</u>		<u>(204,868)</u>	
Net cash outflow from returns on investments and servicing of finance			(570,984)		(198,783)
Capital expenditure					
Payments to acquire intangible fixed assets		(188,350)		(263,704)	
Payments to acquire tangible fixed assets		(7,768,971)		(112,343)	
Capital contributions received		-		21,924	
Receipts from sales of intangible fixed assets		315,654		761,170	
Receipts from sales of tangible fixed assets		<u>3,838</u>		<u>3,050</u>	
			<u>(7,637,829)</u>		<u>410,097</u>
Net cash outflow before financing			(9,899,927)		(4,474,636)
Financing	18 (b)				
Receipts from group companies		3,532,166		3,609,243	
Advances of bank and other loans		5,270,982		689,240	
Capital element of finance lease and hire purchase		<u>(2,994)</u>		<u>(12,667)</u>	
Net cash inflow from financing			<u>8,800,154</u>		<u>4,285,816</u>
Decrease in cash in the year	18 (c)		<u>(1,099,773)</u>		<u>(188,820)</u>

The notes on pages 9 to 20 form part of these financial statements.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1 ACCOUNTING POLICIES

The principal accounting policies are as follows:

a) BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards and on a going-concern basis.

The company achieved a profit for the year of £695,747 after the write back of £3,769,273 of intercompany debt but had net liabilities at 30 June 2005 of £8,081,928.

The company's parent, Watford Leisure PLC, has prepared financial projections for the two years to June 2007 which continue to show improvements in the financial position of the company. In the cash projections, the directors have included the funds they intend to raise via Watford Leisure PLC to meet the company's working capital requirements.

The directors, therefore, consider it appropriate to prepare the financial statements on a going-concern basis. The financial statements do not include any adjustments that would result should this not be the case.

b) PLAYERS' REGISTRATIONS

Costs of acquiring players' registrations are capitalised as intangible fixed assets. Costs include all amounts payable under the purchase agreement, where payment is probable, and any associated costs of the transfer of registration.

Players' registrations are amortised over the period of their initial contract, and any subsequent extensions, on a straight line basis. Players' registrations are written down for impairment when the carrying amount exceeds the estimated amount recoverable through use or sale.

c) SIGNING ON FEES

Signing on fees are charged in the year of payment.

Where a player's registration is transferred any amounts paid in respect of the balance of signing on fees due are included in the profit on disposal of players' registrations in the period in which the disposal is recognised.

d) TANGIBLE FIXED ASSETS, CAPITAL GRANTS AND DEPRECIATION

Tangible fixed assets are stated at their gross cost or valuation less accumulated depreciation.

Capital grants and contributions to capital expenditure are credited to deferred income and are released to the profit and loss account over the expected useful lives of the assets to which they relate.

Depreciation is not charged on freehold land nor on expenditure on assets under construction which have not been brought into use before the relevant accounting date. Freehold property is depreciated over 25 years. Depreciation of ground improvements, motor vehicles, equipment, fixtures and fittings is calculated at 25% on written down value, a rate calculated to write off cost less estimated residual value of each asset over its expected useful life.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)**1 ACCOUNTING POLICIES CONTINUED***e) POURING RIGHTS*

Payments made to release the company from exclusive supply provisions relating to alcoholic beverages have been recognised under the description of "pouring rights." Pouring rights are capitalised as an intangible fixed asset and are amortised on a straight line basis over their economic life, estimated at 10 years.

f) STOCKS

Stocks are stated at the lower of the cost and net realisable value.

g) DEFERRED REVENUE

Deferred revenue arises principally on the advance sale of season tickets and executive boxes and is recognised as income in the period to which it relates.

h) DONATIONS RECEIVED

Donations are accounted for on a cash receipts basis.

i) HIRE PURCHASE AND LEASING

The costs of operating leases are expensed as incurred.

Assets acquired under hire purchase agreements and finance leases are capitalised in the balance sheet and are depreciated in accordance with the company's normal policy. The outstanding liabilities under such agreements less interest not yet due are included in creditors. Interest on such agreements is charged to profit and loss account over the term of each agreement and represents a constant proportion of the balance of capital repayments outstanding.

j) PENSIONS

The company contributes to the Football League Limited Pension and Life Assurance Scheme for certain employees and also contributes to players' own pension plans, the assets of which are held separately from those of the company in independently administered funds. The pension cost charges represents contributions payable by the company during the year.

k) DEFERRED TAXATION

Deferred tax is provided in full, where appropriate, in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax balances are not discounted.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

2 TURNOVER

Turnover represents match receipts and all other income associated with the principal activity of running a professional football club, excluding profits arising on the sale of players' registrations, and excludes value added tax.

3 OTHER OPERATING INCOME

	2005 £	2004 £
Donations	239,247	-
Rent receivable	409,500	390,000
Contributions to capital expenditure	1,510	27,577
Release of capital grants	3,520	3,520
Other	<u>221,751</u>	<u>149,561</u>
	<u>875,528</u>	<u>570,658</u>

4 INTEREST

	2005 £	2004 £
Interest receivable:		
Bank deposit interest	<u>22,305</u>	<u>6,085</u>
Interest payable and similar charges:		
Group interest	270,710	170,735
Bank loan interest	127,766	30,155
Hire purchase interest	689	2,067
Other interest	<u>247,649</u>	<u>9,596</u>
	<u>646,814</u>	<u>212,553</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £	2004 £
This is stated after charging:		
Amortisation of intangible fixed assets	458,435	625,158
Depreciation of tangible fixed assets	146,734	151,692
(Profit) / loss on disposal of tangible fixed assets	(1,166)	614,717
Staff costs (note 6)	6,094,692	7,101,248
Directors' remuneration	75,000	166,029
Auditors' remuneration		
audit fees	20,000	20,000
non audit fees	7,031	1,455
Operating leases - vehicles and equipment	71,578	76,927
Operating leases - other	392,508	897,998

6 EMPLOYEE INFORMATION

	2005 £	2004 £
Staff costs:		
Wages and salaries	5,379,144	6,174,808
Social security costs	623,052	727,790
Other pension costs	<u>92,496</u>	<u>198,650</u>
	<u>6,094,692</u>	<u>7,101,248</u>

The average monthly number of persons employed by the company was as follows:

	2005 Number	2004 Number
Players	46	52
Coaching staff	26	26
Commercial staff	19	26
Administration	15	15
Ground staff	<u>5</u>	<u>5</u>
	<u>111</u>	<u>124</u>

In addition to the above the company employed an average of 122 (2004 - 130) match day staff during the year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

No liability to corporation tax arises in view of the tax loss suffered in the year.

Tax losses at 30 June 2005 available for offset against future trading profits or transfer as group relief are in excess of £21,000,000.

Under the accounting policy no provision is required for deferred taxation and there is no potential liability.

8 INTANGIBLE FIXED ASSETS

	Pouring rights £	Players' registrations £	Total £
Cost:			
At 1 July 2004	752,067	3,958,838	4,710,905
Additions	-	229,600	229,600
Disposals	-	(1,327,418)	(1,327,418)
At 30 June 2005	<u>752,067</u>	<u>2,861,020</u>	<u>3,613,087</u>
Amortisation:			
At 1 July 2004	181,750	3,306,962	3,488,712
Charge for the year	75,207	383,228	458,435
Disposals	-	(1,147,109)	(1,147,109)
At 30 June 2005	<u>256,957</u>	<u>2,543,081</u>	<u>2,800,038</u>
Net book value:			
At 30 June 2005	<u>495,110</u>	<u>317,939</u>	<u>813,049</u>
At 30 June 2004	<u>570,317</u>	<u>651,876</u>	<u>1,222,193</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

9 TANGIBLE FIXED ASSETS

	Freehold ground, premises and improvements £	Motor vehicles, equipment, fixtures and fittings £	Total £
Cost or valuation:			
At 1 July 2004	84,882	984,162	1,069,044
Additions	7,741,498	27,473	7,768,971
Disposals	-	(4,500)	(4,500)
At 30 June 2005	<u>7,826,380</u>	<u>1,007,135</u>	<u>8,833,515</u>
Depreciation:			
At 1 July 2004	17,029	653,128	670,157
Charge for the year	55,541	91,193	146,734
Disposals	-	(1,828)	(1,828)
At 30 June 2005	<u>72,570</u>	<u>742,493</u>	<u>815,063</u>
Net book value:			
At 30 June 2005	<u>7,753,810</u>	<u>264,642</u>	<u>8,018,452</u>
At 30 June 2004	<u>67,853</u>	<u>331,034</u>	<u>398,887</u>

10 STOCKS

	2005 £	2004 £
Goods for resale	<u>44,674</u>	<u>98,475</u>

The estimated replacement cost of stocks does not materially differ from their balance sheet value.

11 DEBTORS

	2005 £	2004 £
Trade debtors	332,518	378,826
Amount due from fellow subsidiary	-	47,523
Transfer fees receivable	690,000	100,000
Prepayments and accrued income	<u>301,739</u>	<u>382,726</u>
	<u>1,324,257</u>	<u>909,075</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Bank overdraft (secured)	519,337	-
Bank loan (secured) (note 13)	83,409	78,569
Trade creditors	304,654	428,952
Players' registration costs	362,750	101,500
Amount due to fellow subsidiary	139,590	-
Other taxes and social security	693,038	678,115
Hire purchase and finance leases (note 13)	-	2,994
Directors' loans (notes 13 & 24)	4,204,302	-
Other loans (note 13)	1,220,819	111,856
Accruals and deferred revenue	<u>2,593,822</u>	<u>1,994,725</u>
	<u>10,121,721</u>	<u>3,396,711</u>

Accruals and deferred revenue includes income, mainly from season ticket sales, received in advance in respect of the 2005/6 season.

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £	2004 £
Bank loan (secured)	317,046	399,260
Players' registration costs	-	220,000
Amount owed to parent company (note 23)	6,561,429	6,798,536
Directors' loans (notes 13 & 24)	162,821	218,691
Other loans	668,961	578,000
Accruals and deferred revenue	<u>420,431</u>	<u>340,562</u>
	<u>8,130,688</u>	<u>8,555,049</u>

The maturity of total debt may be analysed as follows:

	2005 £	2004 £
In one year or less	5,508,530	190,425
Between one and two years	88,626	778,484
Between two and five years	1,060,202	384,796
After five years	-	<u>32,671</u>
	<u>6,657,358</u>	<u>1,386,376</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The company's parent, Watford Leisure PLC, has given representations that it will not seek repayment of amounts loaned to the company in the next 12 months.

The bank loan and overdraft totalling £919,792, including £602,746 falling due within one year are secured by a charge over the company's freehold stadium. The loan is repayable by instalments of £26,500 per quarter and the loan bears interest at 2% above Barclays Bank base rate. The loan is also secured under an unlimited guarantee from Watford Leisure PLC.

Directors loans of £367,123 and other loans of £1,145,819 represent amounts advanced to the company to fund the acquisition and salary costs of certain players. The amounts are repayable from the proceeds received on disposal of the respective player's registrations. One of the player's contracts expires at the end of the 2005/6 season and in the event that the player remains at the Club until that time the liability of £1,009,619 will be written off.

Other loans of £668,961 represent a loan to the company by Watford FC's Community Sports & Education Trust which is secured by a legal charge over the company's stadium and is guaranteed by Watford Leisure PLC.

14 DEFERRED CAPITAL GRANTS AND CONTRIBUTIONS

	Capital grants £	Contributions to capital expenditure £	Total £
At 1 July 2004	43,830	7,593	51,423
Credited to the profit and loss account	(3,520)	(1,510)	(5,030)
At 30 June 2005	<u>40,310</u>	<u>6,083</u>	<u>46,393</u>

Capital grants comprise grants received principally from the Football Stadia Improvement Fund, formerly the Football Trust, towards the costs of stadium re-development.

15 SHARE CAPITAL

	2005	2004
Authorised:		
Ordinary shares of £1 each	<u>1,250,000</u>	<u>1,250,000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>1,072,722</u>	<u>1,072,722</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

16 RESERVES

	Profit and loss account £
At 1 July 2004	(9,850,397)
Profit for the year	<u>695,747</u>
At 30 June 2005	<u>(9,154,650)</u>

17 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	2005 £	2004 £
Profit for the financial year	695,747	1,639,357
Opening shareholders' funds	<u>(8,777,675)</u>	<u>(10,417,032)</u>
Closing shareholders' funds	<u>(8,081,928)</u>	<u>(8,777,675)</u>

Shareholders' funds are fully attributable to equity interests.

18 NOTES TO THE CASH FLOW STATEMENT

a) RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES:

	2005 £	2004 £
Operating loss	(3,174,362)	(5,017,815)
Amortisation of intangible fixed assets	458,435	625,158
Depreciation of tangible fixed assets	146,734	151,692
Capital contribution released	(1,510)	(27,577)
Capital grant released	(3,520)	(3,520)
Net (profit) / loss on disposal of sundry fixed assets	(1,166)	614,717
Decrease / (increase) in stocks	53,801	(24,966)
Decrease in debtors	314,408	372,090
Increase / (decrease) in creditors	<u>516,066</u>	<u>(1,375,729)</u>
Net cash outflow from operating activities	<u>(1,691,114)</u>	<u>(4,685,950)</u>

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

18 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

b) ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2004 £	Cash flows £	Other changes £	At 30 June 2005 £
Cash at bank and in hand	596,878	(580,436)	-	16,442
Bank overdraft	-	(519,337)	-	(519,337)
Net cash at bank and in hand	<u>596,878</u>	<u>(1,099,773)</u>	-	<u>(502,895)</u>
Intergroup balance	(6,798,536)	(3,532,166)	3,769,273	(6,561,429)
Bank loans due within 1 year	(78,569)	(4,840)	-	(83,409)
Directors' loans within 1 year	-	(4,204,302)	-	(4,204,302)
Other loans due within 1 year	(111,856)	(1,108,963)	-	(1,220,819)
Bank loans due after 1 year	(399,260)	82,214	-	(317,046)
Directors' loans due after 1 year	(218,691)	55,870	-	(162,821)
Other loans due after 1 year	(578,000)	(90,961)	-	(668,961)
Finance lease and hire purchase balances	<u>(2,994)</u>	<u>2,994</u>	-	-
	<u>(8,187,906)</u>	<u>(8,800,154)</u>	<u>3,769,273</u>	<u>(13,218,787)</u>
	<u>(7,591,028)</u>	<u>(9,899,927)</u>	<u>3,769,273</u>	<u>(13,721,682)</u>

c) RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET DEBT

	2005 £	2004 £
Decrease in cash in the year	(1,099,773)	(188,820)
Cash (inflow) / outflow from (increase) / decrease in debt and hire purchase balances	<u>(8,800,154)</u>	<u>(4,285,816)</u>
Change in net debt resulting from cash flows	(9,899,927)	(4,474,636)
Parent company debt written back	<u>3,769,273</u>	<u>6,002,470</u>
Movement in net debt in the year	(6,130,654)	1,527,834
Net debt at 1 July 2004	<u>(7,591,028)</u>	<u>(9,118,862)</u>
Net debt at 30 June 2005	<u>(13,721,682)</u>	<u>(7,591,028)</u>

d) MAJOR NON-CASH TRANSACTIONS

At 30 June 2005 the company's parent, Watford Leisure PLC, agreed to write off amounts advanced to the company totalling £3,769,273.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

19 FINANCIAL COMMITMENTS

The company's commitments for rental payments under operating leases payable during the year to 30 June 2006 are as follows:

	Land and Buildings £	Other £
On contracts expiring:		
Within one year	-	3,793
Within two to five years	<u>38,728</u>	<u>22,350</u>
	<u>38,728</u>	<u>26,143</u>

20 CONTINGENT LIABILITIES

The company has liabilities under transfer agreements to pay additional sums dependent on players' attainment and subsequent transfer value. Provision has been made for such liabilities to the extent that it is probable that the amounts will become payable and they are included within players' registration costs capitalised (note 8).

21 PENSION COSTS

The latest actuarial valuation of the Football League Limited Pension and Life Assurance Scheme at 1 April 2003 revealed that the Club's share of the deficit in respect of the final salary section of the scheme was £201,421. The pension cost for the period ended 30 June 2005 includes a charge of £12,166 in respect of the increase in the Club's liability. The contribution is being paid by instalments of £4,116 per month from May 2003 to April 2006 and £1,573 per month from May 2006 until April 2013.

A replacement money purchase scheme was set up from 1 August 1999 and all current employer contributions are paid into the new scheme.

22 POST BALANCE SHEET EVENTS

Subsequent to the year end the company has sold players for £1,150,000 and purchased players with registration costs amounting to £866,280. These amounts will be capitalised in the financial statements for the next financial year.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 (CONTINUED)

23 PARENT COMPANY AND CONTROL

The parent company, and ultimate parent, is Watford Leisure PLC.

At 30 June 2005 the company owed £6,561,429 (2004 - £6,798,536) to the parent company. Part of the amount owed to the parent company bears interest at 2% over HSBC Bank plc base rate. The balance is secured by a floating charge over all the undertakings and assets of the company.

Interest amounting to £270,710 (2004 - £170,735) has been charged to the loan balance in the year to 30 June 2005.

The company has taken advantage of the exemption from FRS 8 regarding disclosure of transactions with other group companies.

24 DIRECTORS' INTERESTS IN TRANSACTIONS

During the year, G Simpson, V Russo and G Russo loaned the company £4,000,000 to finance the repurchase of the stadium. During the year £292,649 was paid in respect of interest and charges.

A director, C Norton, hired an executive box which was paid for on a commercial basis.

Until 29 June 2005, several of the directors were directors of Watford FC's Community Sports & Education Trust, a charitable company. During the year the company made charges totalling £268,656 to the Trust and its subsidiary, Buy Back The Vic Limited. At 30 June 2005 £10,851 was owed to the company in respect of these charges.

Mr H Oundjian, a director, is also a director and major shareholder of Corporate Couture Limited, which company had a contract with the company for the development, design, manufacture and supply of certain products to the company including playing and replica kit. Supplies totalling £252,646 (2004 - £469,805) were made to the company in the year ended 30 June 2005. During the year the contract was terminated by the Club and Corporate Couture is seeking damages in relation to this.

The directors have made a provision based upon their view of the outcome.

THE WATFORD ASSOCIATION FOOTBALL CLUB LIMITED

COMPANY INFORMATION

DIRECTORS

G M Simpson *Chairman*
D R Meller *Vice-Chairman*
D R J Lester
C D Lissack
C J Norton
H B Oundjian
G Russo
V Russo
A S Wilson

HONORARY LIFE PRESIDENTS

Sir Elton John CBE
Graham Taylor

CHIEF EXECUTIVE OFFICER

M A Ashton

COMPANY SECRETARY

P J Wastall

FOOTBALL SECRETARY

M Ives

REGISTERED OFFICE

Vicarage Road Stadium
Watford
Herts
WD18 0ER

FOOTBALL MANAGER

A Boothroyd

INCORPORATION DETAILS

Incorporated in the United Kingdom on
22 July 1909 under Certificate of Incorporation
number 104194

AUDITORS

Chantrey Vellacott DFK LLP
Chartered Accountants
Gresham House
53 Clarendon Road
Watford
Herts
WD17 1LR

BANKERS

Barclays Bank plc
32 Clarendon Road
Watford
Herts
WD17 1BZ

SOLICITORS

Matthew Arnold & Baldwin
21 Station Road
Watford
Herts
WD17 1HT